NATIONAL CREDIT UNION ADMINISTRATION
BOARD MEMBER GIGI HYLAND

REMARKS TO THE
NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS
CONGRESSIONAL CAUCUS

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Thank you, Dan, for that kind introduction. And to all of you, welcome to Washington!

It's amazing how much can happen in a year. Last year, we were discussing the possibility of legislation on regulatory reform in addition to the potential creation of a Consumer Financial Protection Agency. Today, we have the voluminous Dodd-Frank bill that has been signed into law. That law establishes an independent agency -- the Consumer Financial Protection Bureau -- within the Federal Reserve. It also establishes a Financial Systemic Risk Oversight Council on which NCUA's Chairman Debbie Matz serves. And, on top of it all, it's an election year.

You have come to D.C. at a time when there is an inordinate amount of activity and change within the federal financial regulatory community, including NCUA. The Dodd-Frank Bill will require many changes within the NCUA, too, although not as many as in other agencies. I encourage you to view the video of last week's Board meeting when it is posted on NCUA's website in the next few days. The first item on the agenda included a comprehensive explanation of how the new law affects NCUA and credit unions.

Today, I'd like to focus my short time with you on two areas.

First, I will focus on the national environment for credit unions from NCUA's perspective. Then, I will discuss the 2010 assessment and premium that will affect you as a result of this environment.

In general, the financial condition of the credit union industry remains sound. Membership in federally insured credit unions increased to 90.5 million during the second quarter, aggregate delinquency and charge-off ratios inched lower, and credit unions' aggregate net worth ratio held steady at 9.9 percent. However, after credit union shares grew at a nearly 11 percent annual rate during the first quarter, share growth slowed to 0.6 percent during the second quarter and return on average assets slipped to 0.41 percent from 0.47 percent.

These trends highlight the need for you to continue your due diligence efforts and actively monitor your loan portfolios and collection efforts. The marketplace is still immensely challenging and you need to be vigilant in responding to members' needs while executing sound, timely risk management practices. Business the way it was is not the way business is today. That is more apparent than ever in the 2010 premium and assessment that NCUA has levied on credit unions this year.

Last Thursday, the NCUA Board voted to charge a 12.4 basis point Share Insurance Fund premium to all federally insured credit unions. The decision to charge the premium was not taken lightly. However, in these turbulent economic times where we anticipate continued losses at credit unions, it is not practical to manage the fund without a reasonable margin of safety.

Keep in mind that going into this year, the goal was to maintain the equity ratio near 1.3%. Yet as of August 31, as credit union losses exceeded projections, the ratio dropped all the way down to 1.14% according to GAAP. By statute, NCUA is required to publish a restoration plan in the *Federal Register* when the equity ratio falls below 1.2%. If we set the goal any lower, we would risk the possibility of falling below 1% -- which by law would require credit unions to recapitalize immediately.

The responsible public policy is to manage the fund cautiously. Last Thursday, the NCUA Board restored a reasonable margin of safety for the present, rather than risking a loss of confidence in the future.

In addition to the Share Insurance Fund premium, the Board approved a Stabilization Fund assessment in June of 13.4 basis points. The assessment reflects that the most significant financial and structural challenge to the credit union system continues to be the corporate credit union crisis. The assessment was necessary to repay the $1.5 billion in outstanding borrowed funds in the Stabilization Fund on September 30, 2010.

NCUA's broad strategy to stabilize and resolve the corporate crisis includes three phases: 1) Stabilization Phase – stabilize liquidity and raise awareness about the situation; 2) Reform Phase – implement exit strategies for the extraordinary support programs and improve the regulatory framework; and 3) Resolution Phase – conduct an orderly resolution at the least cost to the credit union system. It is that last point that I want to underscore. I assure you, we are aiming to keep the assessments as low as realistically possible. One of the key drivers to our resolution efforts is to manage to the least long-term cost consistent with sound public policy.

As you now know, the NCUA Board will be holding a special meeting this Friday to deliberate on the final corporate credit union rule. Chairman Matz will be addressing that issue and the status of the legacy assets resolution tomorrow in her remarks.

To wrap up the issue of the 2010 premium and assessment, for most of you, the Share Insurance Fund premium amount should be lower than what you budgeted. At 12.4 basis points, the Share Insurance Fund premium falls on the low end of the range of 10-to-25 basis points which the NCUA Board projected for 2010. And when the Share Insurance Fund premium is combined with this year's Stabilization Fund assessment, the total of 26 basis points falls within the lower half of the range of 15-to-40 basis points that the NCUA Board projected for the two payments combined. As we did last year, at its November meeting, the Board will provide a range of the combined premium and assessment charges that NCUA anticipates it may have to levy in 2011.

Thank you for listening and I wish you a productive Congressional Caucus.